

Key presidential candidates' economic agendas: is there room for reform?

Vol. 5, No. 144, October 18, 1999

Rankings of Ukraine's most influential politicians and estimates of numbers of potential votes cast in favor of candidate so-and so have effectively squeezed out other pieces of political news from front pages of Ukrainian newspapers. Though, for regular press readers there is little new in the ranking results themselves: the incumbent president leads all of the rankings, followed by Communist Petro Symonenko and Progressive Socialist Natalia Vitrenko. Oleksandr Moroz, Yevhen Marchuk and Oleksandr Tkachenko are lagging behind, and the other presidential candidates' rankings are so low that their participation in the race cannot be regarded seriously unless the overall purpose of it was for them to see their names printed on official ballots and feel their belonging to a kind of a "presidential club".

A recent survey of opinions of 50 Ukrainian experts, organized by the Kyiv Center for Political Research and Conflict Studies, has placed Leonid Kuchma first on the list of ten most influential politicians of Ukraine. While the incumbent president "scored" 8.83 out of 10 in the ranking, Oleksandr Tkachenko received 7.31, and Oleksandr Moroz's bid was evaluated as 6.57. Petro Symonenko got 6.32, followed by Natalia Vitrenko (5.84) and Yevhen Marchuk (5.67). Other presidential candidates' claims to be regarded as the nation's top political leaders have not been regarded by the experts as serious: Hennady Udovenko received the 35th line in the list of 50, and Yuri Kostenko was named 41st in the same list. Seven presidential candidates did not make it to the "list of 50" at all.

Another opinion poll, conducted by the Ukrainian Institute for Social Research and the Social Monitoring Center on September 17-24, 1999, showed rapid decrease in popularity of all presidential candidates but three - incumbent president Leonid Kuchma, speaker of the parliament Oleksandr Tkachenko and leader of the Ukrainian People's Movement Rukh Hennady Udovenko. The number of respondents prepared to vote for Leonid Kuchma increased from 17% in August to 24.8% in September; the proportion of Oleksandr Tkachenko's potential supporters increased from 2% to 2.8%, and the ranks of Hennady Udovenko's potential supporters grew from 1 to 1.2%. Within the same period of time, other presidential hopefuls lost substantial shares of their potential votes. Natalia Vitrenko received 12.2% in September compared to 16% in August, Petro Symonenko's share decreased from 11% to 9.9%, Oleksandr Moroz lost 0.4% (8.6% compared to 9% in August), and Yevhen Marchuk lost 0.1% (4.9% compared to 5% in August). The poll involved 3,079 respondents in all regions of Ukraine. According to "additional data", quoted by a number of newspapers, the incumbent president will win in the second round no matter who his competitor is.

Hence, no matter how accurate and objective the rankings are, there are only six candidates whose bids for the presidency can be regarded seriously. Since it has been repeatedly stated that the main challenge to the incumbent president is the country's deteriorating social and economic conditions, and since thorough transformation of the social and economic spheres will have to be undertaken (though the directions of such a transformation may differ dramatically depending on who wins the race), it appears useful to undertake an exercise on evaluating the developments in the economic and social fields pledged by the "real" presidential candidates.

NATALIA VITRENKO

Doctor of Economics and, in her day, senior research fellow at the Institute of State Planning and the Ukrainian Academy of Science, she could be expected to realize the whole depth of the social and economic crisis. Instead, her proposals for improving the state's economic status - the Anti-Crisis program (1992), the First-Turn Action Program (1993), the alternative "Economic Program for Preventing the National Catastrophe" (1995), a selection of alternative bills and budget resolutions, as well as draft bills on pensions, minimum wages and salaries, and mechanisms of compensation for private savings lost in the collapse of the banking system - were based more on populism than economic calculations.

If it comes to implementation of her economic agenda, outlined in her official campaign program, the economic model developed in this country is likely to resemble a socially-oriented autarky, in which foreign economic relations and trade are limited to those deemed "politically correct", and the state-run economy produces what is deemed to be needed by the government's "planners" in order to keep the

industrial enterprises operating and people employed. The pledge to introduce government's responsibility and accountability is likely to be limited to the Soviet-style "people's control" or "workers' control" in practice may mean creation of an effective mechanism of interference with operation of selected enterprises.

According to Mrs. Vitrenko, "the main condition of development of domestic production is the abolition of agreements with the International Monetary Fund". Her proposed actions for accumulating resources for boosting industrial production include a freeze on payment of all foreign debts as well as payments on state bonds until Ukraine overcomes the crisis. Other key points of Mrs. Vitrenko's social and economic agenda include state regulation and planning, protection of the domestic market, giving priority to public property, introduction of government-controlled fixed prices for energy, strategic resources and first-need consumer goods, regulation of general consumer prices. The promise of a "constrained targeted emission" for compensation of lost private savings to the population will inevitably result in inflation and increase in real consumer prices. The pledges to introduce the "policy of expensive labor", regulate pensions and salaries and raise minimum salaries and pensions to the level of a "general cost of living" are not enforced by any identification of specific methods or sources needed to carry out the above changes, either. Mrs. Vitrenko's traditionally quoted "source of revenue", nationalization of selected privatized property, is cautiously omitted in the campaign agenda: not only it may prove counterproductive for the purpose of attracting votes, but it is also too difficult to implement in practice, and, hence, feckless. Therefore, after the initial period of a few demonstrative nationalization processes, harassment of "collaborators of the previous regime" and introduction of trade barriers in order to limit imports of general consumer goods and make Ukrainians buy products of protected "national producers", the government's economic course is likely to be limited to attempts to regulate prices, state procurement of agrarian products, emissions made to cover salaries and social security transfers and, as a result, countering new rounds of inflation. Private initiative will be curbed by the expanding public sector and "social works". Spoiling relations with the IMF and other international financial sources will effectively undermine Ukraine's credibility as a borrower and leave the country even more cash-strapped than today.

LEONID KUCHMA

Incumbent president Leonid Kuchma does not appear to be deterred by the figures of economic deterioration quoted by his opponents. Instead, his economic agenda, "5+5" (i.e., "five years of stability and five years of growth") causes doubts whether Leonid Kuchma, if re-elected, will have more political will to carry out economic reform he pledged before his first term. Specifically, in the proposed "national program of social and economic growth" as the foundation of a new "social contract", the pledges of "economic growth at the rate of at least 7% p.a., 1 million new jobs" stand out the line of other pledges: increase of real personal incomes by 1.6 times, increase in wages and salaries, payment of all wage and pension arrears, together with protection of the unemployed, countering poverty, return of lost savings, a pension reform, benefits to the disabled and other underprivileged. The actions to be taken to achieve the implementation of the "social contract" include development of Ukraine's domestic market, encouraging competition, reduction of taxes and taxation reform, a five-year moratorium on changes in the taxation legislation, reduction of shadow economy, increasing transparency and effective control over budget spending, encouraging private initiative, strengthening the middle class, and protection of private property. The promise to create conditions for development of small and medium enterprise, including bank loans to SME, microcrediting, taxation benefits, property guarantees and state protection to small and medium businessmen, as well as creation of favorable conditions for direct foreign and domestic investment, industrial modernization, development of investment privatization, banking system and bond market, and even such contradictory pledges as "protection of national producer and development of competitive environment" are not new. Apart from the question about sources and ways of the promised "brilliant transformation", the main question that remains unanswered is what prevented the incumbent president and a series of governments from doing so before (except the frequently quoted global financial crisis) and what needs to be done to ensure that the proposed improvements are transferred from the agenda into practice.

The pledges of maintaining monetary stability, pursuing a balanced budget policy, reduction of foreign debt, overcoming the payment crisis and budget deficit, accumulation of hard currency reserves also appear rather hard to achieve in combination with the promised increase in social security spending, subsidies to the agrarian sector and the policy of keeping the national currency within the restricted currency band. The declared priority of social transfers and the practice of subsidies and benefits to firms and the population puts the implementation of the pledges to increase state subsidies to the research and development sphere to 2% of the GDP and to use the research and production potential of the Military-Industrial Complex for innovation and re-equipment of Ukrainian industrial enterprises,

stimulation of Hi-Tech production and exports, information, energy-saving and environmentally-friendly technologies, restructuring of the fuel and energy complex, at risk.

YEVHEN MARCHUK

Like the incumbent president, candidate Yevhen Marchuk vows to support private initiative, counter shadow economy, clear all wage and social security payment arrears, protect "national producers", small and medium businessmen, counter unemployment, reduce taxes to the total of 35% and halt further deterioration of rural and poverty-stricken mining areas. According to Marchuk, implementation of his economic agenda will be based on "state monopoly on alcohol and tobacco products, operations in the energy complex", through halting the "capital flight" and returning the money transferred illicitly from this country. At least 50% of workers' contribution is pledged to return to them in the form of wages, and basic living expenditures are promised to be made tax-exempt. The list of social safety pledges includes traditional promise of pensions based on every individual's working history and previous earnings, as well as of free health care and compensation of lost savings.

OLEKSANDR MOROZ

Oleksandr Moroz's economic agenda, ambitiously called "The New Course of Ukraine", is rather obscure. Specifically, it includes Mr. Moroz's own statement that he is "not against well-being of people" but "against destitution and poverty of his compatriots", and promises jobs and due compensation for all, timely payment of wages, salaries and pensions, reduction of tariffs for communal services (already heavily subsidized by the state and a matter of controversy with the IMF). According to Mr. Moroz, his goal is "the true Socialism as labor-based society of social justice", and he will seek to achieve it through building a "market-based people's economy with state regulation", giving priority to industrial policy relying on the domestic potential, restoration of effective production in rural areas, "selling bread, not land", and, elimination of "dictatorship of Mafia-clan forces". Mr. Moroz's social agenda also is easier declared than implemented. The pledge of "state care for children, youth, veterans and women" appears rather ambiguous, as it neither specifies what exactly the "state care" implies, nor indicates what the amount and sources of that "state care" will be. A pledge that constitutionally guaranteed rights for education, health care and pensions "will become a reality" does not take into account the fact that the Constitution does not stipulate that education, health care and pensions are exclusively state-funded. In general, the main problem of the "New Course" is the lack of effective mechanisms, resources, institutions, as well as chances that those who have the access to resources today will be willing to contribute them to building an unusual hybrid of "market-based people's economy with state regulation".

PETRO SYMONENKO

Petro Symonenko declares his objective to be "restoration of the Socialist way of development" and reaching the 1990 level of industrial and agrarian production within the next five years. Other pledges are limited to liquidation of payment arrears, raising salaries and social security transfers, begin "planned" reduction of prices and tariffs, regulation of prices for basic foodstuffs and consumer goods, medicine, housing and communal services, transportation. As ways to achieve those objectives, Symonenko pledges to reject the policy of economic liberalization and monetarism and introduce a "socially oriented model of development of multi-sectoral economy based on state regulation with the use of market instruments and mechanisms". More specifically, the proposed model will include state planning, state support of "basic industries" (i.e., fuel and energy, metallurgy, machine-building and military-industrial complexes), actions to prevent land sales, subsidies to agriculture and food-processing industry, a halt on privatization and "verification of the observance of the state interests and the current legislation in the process of changing the form of ownership of objects of privatization", nationalization of "strategically important" enterprises. Other proposed steps of Mr. Symonenko's economic agenda include state regulation in the banking and financial spheres, reduction of banks' interest rates by 2.5-3 times for "industrial" loans, and increasing the proportion of loans for economic development purposes to 50-60% of the general amount of loans. These actions are most likely to alienate the private banking sector and shortly result in massive pressure on private banks and, as a result, confrontation of the private sector with the regime. The conflict, should it emerge, may not be resolved by promises of "substantial reduction" of taxes, elimination of "shadow economy" and "dolarization", state procurement and state contracts within government-approved programs, and protection of domestic market, nor by the promises of restoration of "social consumption funds" and a "guaranteed system of social protection". According to Mr. Symonenko, the changes will be financed by means of economic revival, state monopoly on production and sales of alcohol, tobacco, energy sources, other high-liquidity goods and products, introduction of state and "public" control over all spheres, elimination of corruption and "Mafia", increasing state regulation and, "if needed", of all foreign economic activity, and repatriation of all hard currency resources.

OLEKSANDR TKACHENKO

Oleksandr Tkachenko's economic agenda, a "National Program of Renaissance of Ukraine", constitutes a substantial part of his bid for the presidency. The essence of his agenda is making Ukraine able to compete "in global markets of agricultural production, machine- and equipment-building, electronics, cybernetics, nuclear, solar and wind energy production". This goal is supposed to be reached by 2015 by means of "immediate restoration of production power, redistribution of produced products through a socially oriented market mechanism". According to Mr. Tkachenko, the market must work for national producers and protect [part of] the population, unable to work, from economic problems. The candidate does not go into promises of freedom of enterprise and property ownership; instead, he argues that "the state must create operating economic mechanisms for increase in [the number of] jobs, for effective exchange of goods and services", and pledges that "wages and salaries will remain the main source of income" for Ukrainians. According to his campaign program, by 2005 the average salary will be 420 UAH (slightly over US\$ 90, provided cash emission is not selected as the method of meeting the growing pressure for social security transfers and the national currency stays at about the current exchange rate). The only promise the agenda has for the middle class is that it will become "substantial and stable".

Paradoxes

While political agendas of key presidential candidates differ substantially in their choices of "vectors" of Ukraine's development, their economic agendas look similarly insignificant, unrealistic and remote from understanding of market reform and, in most of the cases, desire to build the country's economy on market principles.

All candidates vow to reduce taxation pressure while claiming to increase social welfare spending. Paradoxically, all of the presidential candidates seem to ignore the fact that increased social security responsibility, imposed on the budget, would inevitably demand higher budget revenues. Given the scope of deterioration of production, taxes are likely to remain almost the sole steady source of revenue. The pledge to ensure the return of hard currency reserves taken away from Ukraine under previous governments can hardly be implemented due to the lack of the mechanism of carrying out such an action as well as due to the multiple linkages between the "capital flight" and the flawed legislation, privatization and business practices.

In the agrarian sector, none of the key candidates is reform-minded enough to pledge explicitly privatization of land. Instead, proposals for curing the country's ailing agriculture range from Symonenko's and Vitrenko's promises to prevent "making land an object of sale" but to provide the agrarian sector with state contracts and subsidies, to Leonid Kuchma's promise to complete the land reform and guarantee "free development of all forms of economy", provide assistance to collective and private farms, fair price policy, development of agrarian market, mortgages and "state support for social development of rural areas". Yevhen Marchuk announces that "the land should belong to those who work on it" and promises state protection and preferential treatment of domestic agrarian producers. "The state will guarantee sales of agricultural products. New external markets will be explored", states Mr. Marchuk, though giving no details how this pledge meets the idea of free market and competition and how much the "state guarantees" to agrarian producers will cost the budget. Similar problems with justifying state subsidies to traditionally loss-making Ukrainian agrarian sector may be observed in the programs of Oleksandr Moroz and Oleksandr Tkachenko. The similarity of pledges suggests that real changes in the agrarian sector will hardly occur in the foreseeable future.

In the social sphere, all of the key candidates traditionally promise jobs, wages, pensions, social security benefits and subsidies without mentioning their costs. Although correct from the perspective of campaign advertising, the pledges do not appear plausible, particularly in the combination with promises of fast economic recovery.

Dramatic as they may appear at a glance, many of the proposed changes are unlikely to be introduced no matter who becomes the next president. Unless massive nationalization and seizures of private property by the state occur, and the nationalized and confiscated property starts bringing profit immediately, no left-winger who becomes Ukraine's new president will find money to cover wage and pension arrears and compensate bank savings lost after the collapse of the Soviet system. No matter who becomes the president, he or she will face the challenge of the lack of money for industrial restructuring and scarcity of investment. No matter what left-wingers think about the IMF, there is little chance Ukraine can manage without borrowing from foreign sources. The need for a thorough administrative reform will still be there, and a left-wing president will soon find out that the Soviet-style practice of running a planned economy is also gone and substituted with a peculiar mixture of styles and management habits and a good deal of economic anarchy. Furthermore, the opposition of property and business owners, from petty retail traders to "oligarchs", to attempts to introduce a version of the Soviet-style planned economy and system of distribution is likely to be so massive that any president will have to take it into account in order not to run into the risk of a social explosion. On the

other hand, if the incumbent president keeps the office, he will have to undertake at least some reforms to avoid the same, if not stronger, social explosion. To cope with the challenge, actions will have to be taken to complete large-scale privatization and restructuring, while creating a favorable business environment and self-support opportunities for the population to ease the shock. As a notorious advertising slogan once run by a major national TV channel read, "for all the plentitude of options, there is no alternative".